



February 16, 2011

Honorable Members of the Senate Reforms, Restructuring & Reinventing Committee,

Thank you for inviting The Center for Michigan to testify today about possible reforms in our great state.

The Center is a five-year-old “think-and-do” tank. We use public engagement and in-depth journalism and policy research to help improve Michigan’s future prospects for future prosperity.

Over the past three-and-a-half years, we held 580 Community Conversations involving 10,500 diverse citizens in every corner of the state. Those many hours of discussion resulted in our 10-point “Common Ground Agenda Citizens’ Agenda” for Michigan’s future. It’s included in your packet today. In numerous ways, that agenda – was in clear focus throughout the 2010 statewide election campaigns.

To summarize, citizens want exactly the kind of discussion about reforms, restructuring, and reinvention you are fostering in this committee. In our community meetings, we’ve heard widespread, statewide support for the following types of reform with direct relevance on current budget deliberations:

- **TAX REFORM:** Citizens want a simplified and stable state tax code. They want wholesale review of the state’s complicated network of more than \$30 billion in tax incentives and tax breaks. Among specific reforms, on the cut side we’ve heard widest support for cuts in business taxes to help spur a more business-friendly and entrepreneurial environment. On the revenue side, we’ve heard most support for broadened sales and consumption taxes.
- **EDUCATION REFORM:** Citizens consider education to be a crucial public investment. But they want better return on that investment in the form of more accountable and efficient operations. They want stable funding sources at all levels of the public education system, from pre-school to universities. They expect a year’s worth of student growth for every year a student is in school. They see consolidation and service sharing as an essential strategy for school districts to stretch budgets. If budget cuts are a must, many look first to educator pension and health care costs.
- **TRANSPARENT & STRATEGIC BUDGETS:** Michigan citizens express puzzlement and deep frustration with the recent run of annual state budget crises. Citizens insist that the governor and legislature pass balanced budgets on time – budgets that clearly outline strategic priorities and intended outcomes. The governor’s new Dashboard metrics and Dollars & Sense guide to state finances are positive steps in that direction. In terms of specific areas for cuts, reductions in prison spending and scrutiny of public sector pay and fringe benefits were mentioned most often by Community Conversation participants.

- **INTENSIFIED CONSOLIDATION & SERVICE SHARING IN LOCAL**

GOVERNMENT: To stretch limited funds as far as possible citizens want much greater levels of regional cooperation among neighboring cities, suburbs, townships, and county governments. They are generally supportive of combining such services as police and fire and public works operations.

When citizens discuss these concepts, they usually speak at the menu level rather than the recipe level. In other words, they aren't experts. You can't expect many citizens to whip out spreadsheets in community meetings and negotiate the finer points of state tax policy.

So, with citizens' "menu" preferences as our guide, the Center's journalism and research often delves more deeply into the detailed reform choices you face. The packet we're presenting today discusses several reform approaches in more detail, including:

- Corrections
- Public Sector Consolidation & Service Sharing
- Public Sector Pay & Benefits
- Education Investment: Early Childhood & Length of School Year

CORRECTIONS

Over the past two years, the Center has staffed a diverse coalition groups -- including business, nonprofits, education and local government -- all concerned about how the state prison system has steadily consumed a larger and larger share of the state general fund budget.

In response to a request from Gov. Rick Snyder's transition team, this Corrections Reform Coalition provided the enclosed policy brief in November. In short, it outlines approximately \$200 million in reform choices, including:

- **Prison Population Reforms:** Minimizing the number of prisoners serving after their earliest release dates, implementing the "Council on State Government" reforms requiring many inmates to serve 100-120 percent of their minimum sentences, expediting parole for medically fragile prisoners, and moving deportable prisoners from state prisons to federal prisons. Currently, about 8,000 prisoners are past their earliest release date. If half of those were found to be appropriate for parole, the savings could total \$120 million or more. The Corrections Reform Coalition is hardly the only group to suggest this approach. The Mackinac Center for Public Policy has regularly called for reducing the prison population. And the bipartisan Legislative Commission on Government Efficiency two years ago recommended the state reduce to 5,000 the number of prisoners past their earliest release date.
- **Staff and Labor Reforms:** Obtaining concessions so that prison employee pay and benefits are more in line with those paid by peer states. Federal statistics suggest prison system pay in Michigan was, in 2008, 13 percent higher than the average of eight Great Lakes States. Likewise, benchmarking by the National Conference of State Legislatures in 2009 concluded that Michigan taxpayers spent 34 percent more than the national average for state employee insurance while state employees contributed 32 percent less than the national average in premium costs sharing. This potential reform extends well beyond the prison system to include many other state workers.

- **Work Rule Reforms & Other Efficiencies:** Elimination of costly overtime/sick time provisions, dry cleaning allowances for prison officers, retention pay, longevity pay, and state-paid holidays and a variety of other efficiency approaches.

PUBLIC EMPLOYEE PAY & BENEFITS ISSUES

The public relations battle is raging right now over whether state employees and other public workers are overcompensated or under compensated compared to the private sector.

One simple and important question can easily get lost in this debate...

What kind of public sector workforce can we afford?

Ford and GM are issuing large profit-sharing checks to workers this winter. Those companies and their workers only got to this point of recovery after fundamentally restructuring pay and benefits.

In May 2009, the Center held a Government Collaboration & Accountability conference at Michigan State University. Our issue guide from that conference is included. It showed how much restructuring is underway in the public sector, too. State and local governments have seen double-digit percentage decreases in their overall workforces, including key police, firefighter, and water/sewer worker ratios that are well below the national average. Additional savings are possible, *if* the public is willing to endure more reductions in public services and the governor and legislature choose to navigate collective bargaining and numerous other public worker protections and home-rule provisions embedded in state law. Examples of possible savings we outlined in our 2009 issue guide:

- A 10 percent reduction in total state workforce employment or compensation could save \$450 million/yr.
- A 10 percent reduction in total public sector workforce or compensation across Michigan could save \$3.3 billion per year. Applying a 32-hour, four-day work week across Michigan's public sector could save up to 20 percent, or \$6.6 billion.

Another issue you are grappling with, public employee health care benefits, can be exceedingly complex. And we're the first to admit we don't have all the answers. But we can offer some basic numbers and research to inform the discussion.

As of 2009, state employees in Michigan paid less than their national peers for health care coverage. But taxpayers in Michigan paid much more than their national peers to supply that coverage. Details, according to the National Conference of State Legislatures:

STATE EMPLOYEE HEALTH BENEFITS COMPARISON

	TOTAL PREMIUM	TAXPAYER SHARE	EMPLOYEE SHARE
MICHIGAN	\$1,314	\$1,183	\$131
NATIONAL AVERAGE	\$1,075	\$883	\$192
DIFFERENCE IN MICHIGAN	22%	34%	-32%

SOURCE: 2009 National Conference of State Legislatures data, online at <http://www.ncsl.org/portals/1/documents/health/FamilyPrem09.pdf>

There are two obvious cost-saving reform options here: 1) Negotiate health care plans with lower overall premiums; and 2) Increase the employee share of premiums.

While in the legislature, State Treasurer Andy Dillon tried to get at these cost issues through the concept of a statewide public employee benefits pool. Again, this is an extremely complex issue and we'll leave it to the state treasurer and others to estimate and debate potential costs and savings. The only thing we add is a glimpse at what's going on in other states. When Dillon proposed his plan in summer 2009, The Center for Michigan benchmarked the costs of public health care benefits pools in seven key comparison states. This report is included in our packet today. Three key things we found:

- **Lower costs in other states.** We found 40 percent higher benefit costs for state workers and retirees in Michigan than in the pooling states.
- **Higher employee premium shares elsewhere.** In Michigan, the employee share is 10 percent. It's 25 percent in Georgia, 16 percent in California, 20 percent in North Carolina, and 17 percent in Massachusetts.
- **Big insurance pools are possible.** There are concerns that Michigan's patchwork of thousands of schools and local governments is too unwieldy to pool into a large insurance plan. Yet, big pools are operating in some other states. A quarter-million enrollees in California's public worker plan do not come from state government. The North Carolina pool insures the families of 250,000 public schools, college, and municipal workers in addition to state employees – the non-state enrollees there outnumber the state enrollees.

CONSOLIDATION & SERVICE SHARING

Our 2009 Government Collaboration & Accountability Conference also explored numerous consolidation and service sharing issues:

- **School Consolidation & Service Sharing:** With more than 500 local public school districts, the question is whether economies of scale could be achieved by combining back-office administrative functions like payroll and purchasing, busing, and other services. To this end, the Legislative Commission on Government Efficiency recommended allowing the state school superintendent to require consolidation of districts if savings of five percent or more could be documented. A 2008 Deloitte study suggested schools nationwide could save \$9 billion through service sharing – Michigan's share of Deloitte's suggested savings would amount to about \$300 million. Since our 2009 conference, other reports, most notably the Grand Rapids Press' "Michigan 10.0" series, have argued for hundreds of millions of dollars in savings through school consolidation and service sharing.
- **Local Government Consolidation & Service Sharing:** First, it is important to note that hundreds of services are already formally or informally shared between local governments in the Grand Rapids and Southeast Michigan region. Estimates of cost savings from consolidations in individual communities range from about 10 percent of total government costs to a couple hundred dollars in savings per household per year. The Legislative Commission on Government Efficiency argued for a new state revenue-sharing formula that would fund specific strategic services and could reward efficiency in government operations. That technical move would require constitutional change.

Likewise, the legislature and governor in recent years were unable to act on loud pleas from local governmental units across the state to remove other legal impediments to regional collaboration, including Act 312 and the Urban Cooperation Act of 1967.

EDUCATION INVESTMENT

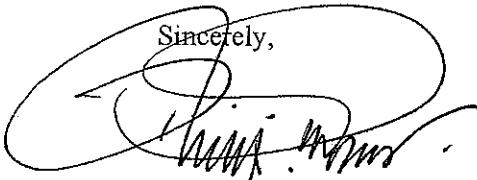
Not every reform approach offers immediate cost savings. In fact, if we're going to truly restructure and reinvent, this committee must consider strategic public investments likely to pay off in long-term prosperity. Two examples in the education arena:

- **Early Childhood.** A new Children's Leadership Council of Michigan, organized by the Center, is a statewide group of business leaders who encourage strong state investment in children to ensure they all arrive at school healthy and ready to succeed. The council recommends a four-pronged approach:
 - **Hold children harmless as you work to balance the state budget and resolve Michigan's fiscal and economic problems.** To balance the state budget, lawmakers cut \$151 million in FY2010 from early childhood programs, reducing opportunities for thousands of Michigan youngsters to attend high-quality child care and preschool, get needed health screenings, and avoid becoming the victims of child abuse and neglect. Given the proven return on investment in early childhood, balancing the state budget on the backs of the state's youngest citizens is shortsighted.
 - **Streamline state efforts to make sure that investments reach our young children directly.** Current initiatives for our children are spread through many state departments, reducing coordination, efficiency, and impact. Eighty-five separate funding streams, totaling more than \$2 billion, support various early childhood programs and services. The governor should establish an office of early learning that will focus and make more effective state early childhood initiatives. This office must set and measure outcomes and assess the impact and effectiveness of programs.
 - **Assure that all 4-year-olds who meet eligibility requirements for publicly funded pre-school are enrolled.** There are currently 40,000 who are eligible but not enrolled. Savings from streamlining of early childhood initiatives could help support enrolling these at-risk children in pre-school.
 - **Strengthen private sector investment in parent and caregiver education and involvement for children age 0-3.** The first 1,000 days are critical to a child's brain development. Right from birth, children must be raised by parents and other caregivers who have the supports they need to be their children's first and best teachers. In partnership with the public sector, Michigan's private sector should strengthen its considerable investment in the well-being of our youngest children.
- **Grow Michigan's School Year.** We applaud the legislature for slowing a very negative trend first reported by The Center for Michigan two years ago. Our "School Daze" report documented how 40 percent of Michigan school districts had cut to fewer than 170 days of classroom instruction as leading nations around the globe were offering more than 200 days of instruction. Cutting classroom days from the school calendar is an extremely short-sighted budget balancing tool. Fortunately, the legislature reacted to our report by

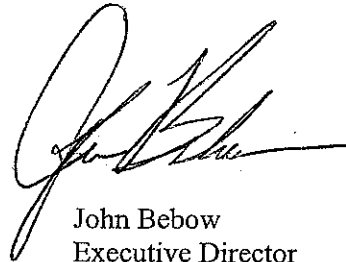
requiring districts to stop shrinking and steadily requiring all districts to be back at 170 days or above by the 2012-13 school year. But that's not enough. The State Board of Education and others have implored state leaders to bring the school calendar at least back to a full 180 days, which remains the informal national standard. Doing so will require increased school investment, tough state impositions on local control, labor concessions, or all three. Failing to do so inhibits Michigan students' ability to compete in the global economy.

Thank you for the opportunity to present these materials today. We welcome the opportunity for future dialogue and we can be reached at any time at 734-769-4625 or info@thecenterformichigan.net.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Phil Power".

Phil Power
President

A handwritten signature in black ink, appearing to read "John Bebow".

John Bebow
Executive Director

CORRECTIONS REFORM APPROACHES

DATE: November 29, 2010
TO: Bill Martin, transition liaison for prison policy for Gov.-elect Rick Snyder
FROM: Members of the Corrections Reform Coalition

RE: Prison System Reform and Cost Savings Opportunities

A diverse group of organizations including representatives of the businesses, nonprofit, education, and local government sectors formed the Corrections Reform Coalition in late 2008. The organizations in this informal coalition share deep concern over the size and growth of the budget for the Michigan Department of Corrections – a budget that grew from 2 percent of state general fund expenditures in 1971 to 23 percent today.¹ The MDOC budget has continued to grow (both in total amount and in its ratio of the general fund) despite cuts to the prison population and workforce:

MICHIGAN PRISON BUDGET TRENDS 2001-2011 (not inflation adjusted)

FISCAL YEAR	MDOC GEN. FUND APPROPRIATIONS	TOTAL GEN. FUND	MDOC RATIO OF GF	MDOC FTEs
2000-01	\$1,619,600,500	\$9,744,382,627	17%	16,784
2005-06	\$1,806,098,500	\$9,106,305,600	20%	17,509
2006-07	\$1,871,877,500	\$9,118,734,500	21%	17,782
2007-08	\$1,996,084,500	\$9,980,721,900	20%	17,637
2008-09	\$1,778,041,400	\$8,568,697,800	21%	17,285
2009-10	\$1,903,641,900	\$8,128,039,200	23%	15,746
2010-11	\$1,918,429,500	\$8,308,419,000	23%	15,856

*Sources: Michigan Senate Fiscal Agency Appropriations Reports (for yr-end approps, 01-09
 For 2010, the initial appropriations report was used because the final is not yet published.
 For 2011, House Fiscal Agency initial GF/GP Appropriations summaries were used.*

The Corrections Reform Coalition has issued a series of letters to state policymakers over the past two years. Those signed letters are attached along with contact information for all who have participated.

The coalition believes a two-pronged approach to further prison reform is possible without compromising public safety. In essence, the coalition has called for the state to reduce corrections spending by hundreds of millions of dollars by reforming: 1) prison operations; and, 2) sentencing/incarceration policies.

The coalition met most recently in mid-November and identified three themes of concern and opportunity for the incoming Snyder Administration:

- The prison population.
- Staff and labor issues.
- Other prison operations.

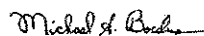
Those three themes are discussed in detail below.

We are grateful for this opportunity to provide ideas and insights on the prison system as the Snyder Administration begins to grapple with the considerable policy and budget challenges coming in 2011 and beyond.

We stand ready to support reform efforts.

Thank you for your consideration.

Sincerely,



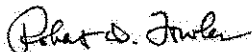
Mike Boulus, Executive Director
Presidents Council
State Universities of Michigan



Kyle Caldwell, President & CEO
Michigan Nonprofit Assoc.



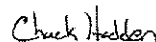
Jeanne Englehart, President & CEO
Grand Rapids Area Chamber



Rob Fowler, CEO
Small Business Assoc. of Michigan



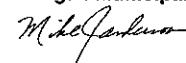
Dan Gilmartin, Executive
Director & CEO
Michigan Municipal League



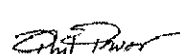
Chuck Hadden, President & CEO
Michigan Manufacturers Assoc.



Sarah Hubbard, Senior Vice
President
Detroit Regional Chamber



Mike Jandernoa, Private Citizen
Grand Rapids



Phil Power, President
The Center for Michigan

Please note... Additional organizations and individuals also have participated in the Corrections Reform Coalition in the past two years but were unavailable to sign for the following reasons...

- Doug Rothwell, CEO, Business Leaders for Michigan – declined to sign due to his role on the Snyder Transition Team.
- Bill Martin, CEO, Michigan Association of Realtors – declined to sign due to his role on the Snyder Transition Team.
- S. Martin Taylor, private citizen and former Michigan state government department head, could not be reached due to the Thanksgiving holiday.

THEME 1: THE PRISON POPULATION

With annual costs of more than \$30,000 per inmate, one key way to reduce Michigan Department of Corrections budget is to reduce the prison population so that additional prison facilities could be closed or consolidated. The coalition has commended the department, Gov. Jennifer Granholm, and the Michigan Legislature for doing so. As of Friday, November 19, the prison population stood at 44,076 inmates – down 14 percent from the all-time high of 51,554 in May 2007.²

Still, additional steps can be taken, including:

- 1) **Minimizing the number of prisoners serving past their earliest release dates.** Approximately 8,000³ (18 percent) of MDOC inmates are past the earliest release dates as prescribed by their sentences. Many such prisoners may be able to be released without threatening public safety. At \$30,000 per inmate, reducing by half the number of prisoners past their earliest release dates could conceivably save \$120 million.
- 2) **Implement CSG Reforms.** The Council of State Governments, after several years studying Michigan's prison system, recommended a series of reforms that resulted in Senate Bills 826 and 827. Among other things, these bills would require that inmates serve 100 percent of minimum sentence but no more than 120 percent of minimum sentence and would limit the amount of additional prison time received by technical parole violators. The Pew Center/Council of State Governments estimated these reforms would result in a 1,800 prisoner reduction and \$35 million in total savings over the next four years. Numerous members of the Corrections Reform Coalition testified in favor of these bills in early 2010. Yet the bills have remained stalled in the Senate Judiciary Committee since September 2009⁴.

- 3) **Expediting parole for medically fragile prisoners.** MDOC currently cares for 300-400 such infirm prisoners. Moving such prisoners to facilities and service providers beyond prison walls could shift many of their medical costs to the federal Medicaid system.⁵
- 4) **Assuring the parole board expedites all hearings and paroles to the extent possible without compromising public safety.** Parole policy can better reflect the priority of moving low-risk offenders back into the community. For example, many other states incentivize inmates by reducing sentences with good-behavior credits.⁶
- 5) **Establishing a sentencing commission to thoroughly examine Michigan's incarceration policies and recommend practical and safe reforms.** Studies by the Citizens Research Council of Michigan and the Justice Center of the Council of State Governments have suggested that Michigan may imprison felons for longer periods of time than other states, thereby inflating prison system costs without necessarily deterring crime or increasing public safety. In 2008, the Citizens Research Council concluded Michigan's incarceration rate as 44 percent higher than the average of all Great Lakes states (489 prisoners per 100,000 residents in Michigan; average of 338 prisoners per 100,000 residents in all Great Lakes states)⁷. A 2009 report by the Justice Center found that "people sentenced to prison in Michigan for various violent crimes stay in prison considerably longer than is the case nationally."⁸ A commission could benchmark Michigan's sentencing and parole procedures and incarceration outcomes against those in other states and identify best practices elsewhere to manage the careful balance between the need for incarceration as a deterrent against crime and the need to minimize public investment in prisons.

THEME 2: STAFF & LABOR ISSUES

As outlined above, Michigan prison costs have continued to rise despite the 14 percent drop in the number of prisoners in the past three and a half years. Payroll accounts for three-quarters of all MDOC expenses. In 2011, the Snyder Administration has the opportunity to negotiate new labor contracts with many state employees, including many in the Department of Corrections.

Obviously, the administration must balance economic concerns with MDOC employee morale and the constant need for MDOC employees to prevent prison unrest and protect the public.

Areas of concern and potential savings:

- 1) **Overall staffing levels.** MDOC arguably grew less efficient in terms of staffing in recent years. From 2006 thru 2009, the ratios of prisoners-to-guard and prisoners-to-total-MDOC-employees actually fell. Staffing and inmate numbers are not yet final for 2010, but estimates suggest MDOC has not cut staffing levels as aggressively as it cut the prison population, at least thru 2009:

MDOC PRISONER-TO-STAFF RATIOS (2006-2009)					
YEAR	TOTAL EMPLOYEES	CORRECTIONS OFFICERS	TOTAL PRISONERS	PRISONERS PER EMPLOYEE	PRISONERS PER COR. OFFICER
2006	16,940	8,913	51,515	3.04	5.78
2007	16,260	8,427	50,203	3.09	5.96
2008	16,324	8,616	48,686	2.98	5.65
2009	15,519	8,048	45,578	2.94	5.66
Nov. '10	14,279	8,000 (est.)	44,076	3.09	5.5 (est.)

SOURCE: MDOC Annual Statistical Reports, 2006-09. <http://www.michigan.gov/corrections/0,1607,7-119-1441---,00.html>
 November 2010 numbers provided by MDOC administration. Exact number of officers for November 2010 were not immediately available from MDOC.

Additional opportunity may exist to benchmark MDOC overall staffing and guard-to-prisoner ratios to those of other states' prison systems and adjust accordingly if warranted. Such ratios from other states were not immediately available from MDOC administration.

- 2) **Employee Pay & Fringe Benefits.** In contrast to Michigan's overall economic meltdown and the loss of hundreds of thousands of jobs statewide in the past decade, the costs of MDOC employee pay and benefits have risen considerably. Overall MDOC "economics" increased 3.17⁹ per year from 2003-2011, according to department testimony in the Senate in February 2010. In state government parlance, budget increases attributed to "economics" are dominated by personnel-related costs, including salary and wage increases, actuarial increases to insurance and retirement costs, and workers compensation costs.

Citizens Research Council reports and updated Census statistics suggest that Michigan Department of Corrections workers are compensated at considerably higher levels than their peers in other states. In 2008, the Citizens Research Council estimated that 2005 prison system pay in Michigan was 20 percent¹⁰ higher than the average in eight Great Lakes states. Earlier this year, The Center for Michigan used the same Census data as CRC to estimate that Michigan prison system pay in 2008 was 13 percent higher than the Great Lakes average:

BENCHMARKING PRISON SYSTEM PAY				
STATE	2002	2004	2006	2008
Illinois	\$45,116	\$49,227	\$53,887	\$58,426
Indiana	\$31,794	\$32,913	\$34,044	\$37,322
Minnesota	\$42,613	\$43,638	\$45,228	\$49,224
New York	\$50,002	\$56,762	\$58,757	\$61,764
Ohio	\$43,480	\$42,991	\$44,492	\$49,897
Pennsylvania	\$43,473	\$47,576	\$46,194	\$50,663
Wisconsin	\$37,116	\$40,330	\$44,855	\$49,960
Michigan	\$47,980	\$47,327	\$58,324	\$58,616
8-state average	\$42,697	\$45,096	\$48,223	\$51,984
Amt. MI exceeds ave.	\$5,283	\$2,232	\$10,101	\$6,632
% MI exceeds ave.	12%	5%	21%	13%

Source: US Census Bureau Quarterly Census of Employment & Wages

<http://data.bls.gov/cgi-bin/dsry>

Also, benchmarking by the National Conference of State Legislatures in 2009 concluded that health insurance for Michigan state employees cost 23 percent more than the national average¹¹. Michigan taxpayers spent 34 percent more than the national average for that insurance while Michigan state employees contributed 32% less than the national average in premium cost sharing.

STATE EMPLOYEE HEALTH INSURANCE COSTS (2009)

	STATE COST	EMPLOYEE COST	TOTAL COST
All States	\$880	\$192	\$1,072
Michigan	\$1,183	\$131	\$1,314
% Michigan Exceeded Ave.	34%	-32%	23%

Source: "State Employee Health Benefits - Monthly Premium Costs (Family coverage)," August 2009, by the National Conference of State Legislatures

<http://www.ncsl.org/portals/1/documents/health/FamilyPrem09.pdf>

- 3) **Work Rules.** Labor contracts with corrections employees include numerous costly work rules that could be considered for elimination. Elimination of the following work rules could save \$51 million per year, according to MDOC estimates¹²:

- **Overtime/Sick Time.** Employees currently receive 4 hours of sick time per pay period but are actually using, on average, slightly more than 4 hours of sick time per pay period. Under current rules, an employee can call in sick on a scheduled work day and then earn overtime later in the week for working on a previously unscheduled work day, even if total hours for the week have not exceeded 40. Requiring 40 hours worked before granting any overtime could save \$29 million per year.
- **Clothing/dry cleaning allowances for officer uniforms.** Eliminating this benefit could save \$5.4 million.
- **Retention pay.** Some corrections officers receive retention pay for working in higher-level prisons. Eliminating this benefit could save \$5.5 million.
- **Longevity pay.** Discontinuing this benefit, which is in addition to scheduled pay increases and retirement benefits, could save \$8.2 million.
- **State paid holidays.** Reducing the number of holidays by two could save \$3 million in MDOC

THEME 3: OTHER PRISON OPERATIONS

The MDOC and its employees should be commended for enduring considerable change in recent years. MDOC estimates it has saved more than \$600 million since 2003 through prison closures/consolidations/reorganizations, process efficiencies, and other reforms. State budget pressures necessitate ongoing scrutiny of all prison funding and processes.

Additional areas of concern and potential savings:

- 1) **General Efficiency Thru General Budget Cuts.** The budget passed by the Legislature in fall 2009 called for an \$841 per prisoner cut in Department of Corrections spending to be achieved through general efficiencies. The governor vetoed this cut, which would have saved \$38 million. After holding hearings across the state in 2006-07, a Senate subcommittee declared it was "convinced that the Michigan Department of Corrections should be able to reduce its per-prisoner cost by at least 20-30 percent." The committee did not outline specific strategies to achieve those general operational savings, though the general desire for such savings certainly remains.
- 2) **Process Engineering.** MDOC estimates it will soon save \$4 million annually through improved processes for food service supervision, accounting, and prisoner store operations. Process engineers who are members of the Detroit Regional Chamber of Commerce also have studied prison parole processes and the delivery of prisoner medications and estimates millions of dollars in additional potential savings.

Efficiency consultants should continue to be employed in search of additional savings through process re-engineering and removal of any unnecessary administrative rules or burdensome legislation affecting prison operations.

- 3) **Deportable Prisoners.** House Bill 4130 would transfer state prisoners to federal custody after those prisoners had served half of their minimums state sentences. The bill passed the House earlier this fall and awaits action in the Senate. House Fiscal Agency estimated that as of fall 2009, this reform would have removed 59 prisoners from the state system at an annual savings of \$600,000. Additional savings are possible once more deportable prisoners serve half their minimum sentences. The bill has passed the House but has been stalled in the Senate Judiciary Committee since September 2009.¹³
- 4) **Chelsea Boot Camp – Keep It Open.** In recent years, some legislators have repeatedly threatened to close a prison alternative boot camp in Chelsea, despite data suggesting that the boot camp saves money and is at least as effective as prison when it comes to inmate recidivism. Putting first-time offenders in the boot camp rather than prison saves more than \$30 million per year.¹⁴
- 5) **Mentally Ill Prisoners.** Experts estimate that many of Michigan's prisoners suffer from severe mental illness. There is considerable need to identify best practices nationally in the treatment and housing of the mentally ill, including, prison diversion programs.
- 6) **Continue to Tackle Recidivism Through Strong Re-Entry Programs & Additional Reforms.** MDOC needs to continue to innovate and invest in strategic programs to reduce recidivism. MDOC estimates that the Michigan Prisoner Re-Entry Initiative (MPRI) is leading to lower prison populations and fewer returns to prison without an increase in crime. MDOC estimates net savings, after considerable reinvestment, of \$172 million as a result of MPRI.

¹ See Center for Michigan Tax and Budget Issue Guide, November 2009. (<http://www.thecenterformichigan.net/wp-content/uploads/2010/08/Tax-and-Budget-Issue-Guide.pdf>)

² Corrections Coalition discussion with MDOC administration, November 2010. All data can be confirmed with MDOC administration.

³ Corrections Coalition discussion with MDOC administration, November 2010. All data can be confirmed with MDOC administration.

⁴ See Senate Fiscal Agency Analysis of the CSG reform bills... (<http://www.legislature.mi.gov/documents/2009-2010/billanalysis/Senate/pdf/2009-SFA-0826-S.pdf>)

⁵ The nonprofit Hope Network has studied the issue of medically fragile prisoners in-depth. Hope Network President and CEO Phil Weaver, who has participated in the Corrections Reform Coalition, can provide additional details on potential cost savings for moving infirm prisoners to alternative treatment services outside of prisons.

⁶ The Detroit Regional Chamber of Commerce, which has participated in the Corrections Reform Coalition, has studied this issue and can provide additional rationale and possible savings estimates. Contact Brad Williams or Sarah Hubbard at the Chamber for additional details.

⁷ "Growth in Michigan's Corrections System: Historical and Comparative Perspectives." Citizens Research Council of Michigan, June 2008. (www.crcmich.org/PUBLICAT/2000s/2008/rpt350.pdf)

⁸ "Analyses of Crime, Community Corrections, and Sentencing Policies." The Justice Center of The Council of State Governments, January 2009. (<http://www.justicereinvestment.org/files/Analyses.pdf>)

⁹ See "FY 2011 Budget Proposal and Updated Prison Bed Space Projections – Trends in Key Indicators and Impact from Proposed Legislative Changes." Michigan Department of Corrections – Presentation to the Senate Appropriations Subcommittee on Judiciary & Corrections," February 2010.

¹⁰ "Growth in Michigan's Corrections System: Historical and Comparative Perspectives." Citizens Research Council of Michigan, June 2008. (www.crcmich.org/PUBLICAT/2000s/2008/rpt350.pdf)

¹¹ "State Employee Health Benefits – Monthly premium costs (Family coverage)." National Conference of State Legislatures, August 2009. (<http://www.ncsl.org/portals/1/documents/health/FamilyPrem09.pdf>)

¹² Work rule savings estimates were provided by MDOC administration in informal briefings with Corrections Reform Coalition members in November 2010.

¹³ See House Fiscal Agency Analysis of this "Rapid Repatriation" bill... (<http://www.legislature.mi.gov/documents/2009-2010/billanalysis/House/pdf/2009-HLA-4130-3.pdf>)

¹⁴ For full discussion of the Chelsea Boot Camp and its potential savings, see the House Fiscal Agency analysis... (<http://www.legislature.mi.gov/documents/2009-2010/billanalysis/House/pdf/2009-HLA-5311-3.pdf>)

SPECIAL REPORT: Learning from prison cuts in other states

By The Center for Michigan | Published: February 3, 2011

By Melissa Preddy

When Judge Steven Alm was appointed to a Honolulu felony court in 2004, it didn't take long before the new jurist identified what he considered a major flaw in the system: Offenders on probation repeatedly flouted simple rules without sanction, until a-dozen-or-so accumulated violations sent them to state prison for long and costly punishment based on the sentence for their original crime.

"I said, 'This is a crazy way to try to change anybody's behavior,'" said Alm, a veteran prosecutor and former U.S. attorney. "We had 45 percent of offenders failing their drug tests – and that's with a month's notice they were going to be tested. Judges would say, 'You really want me to send someone to state prison for 10 or 15 years for two positive drug tests?' But there was nothing in between."

Within months Alm had launched a unique quick-sanction pilot aimed at keeping probation violators out of prison, saving taxpayer dollars and nipping new offenses in the bud. The inexpensive zero-tolerance program, which relies on short, immediate jail terms for rule breakers, has posted results that some are calling extraordinary. A controlled study found that participants served or were sentenced to 48 percent fewer days than the control group, and that they were 55 percent less likely to be arrested for a new crime.

"It was mind-blowing," said Alm of the program now known as HOPE. "And we started with no budget at all."

The program is now hailed as a ray of light when, amid a moribund national economy, corrections spending is the second fastest-growing item in state budgets – trailing only Medicaid, according to the Pew Center on the States.

It's ballooned from an \$11 billion annual expenditure to more than \$50 billion in two decades, with one out of every 100 adults behind bars.

And as states struggle with fiscal crises, they are looking for alternatives to filling \$30,000-a-year prison beds. Projects like Hawaii HOPE, or like an initiative in Texas that added thousands of drug treatment beds, or like sentencing reform in South Carolina are getting renewed attention from lawmakers, corrections officials, criminal justice activists and business leaders.

While some lawmakers contend that Michigan's prisons have excessively high labor and health care costs, experts say state-by-state comparisons are difficult and that short-term

savings are limited. They say long-term solutions to controlling prison costs will require alternatives to incarceration and anti-recidivism efforts that not only reduce the prison population but mean fewer victims of crime.

Many argue that so-called community corrections efforts aimed at helping offenders with the root causes of crime also have the potential to improve public safety outcomes and deter future offenses.

Michigan's new chief executive, Gov. Rick Snyder, said in December that he's launched a national search for a new director for the state's Department of Corrections.

There is progress to build upon: Michigan has been lauded as among the states achieving the greatest declines in prison populations in recent years. The number of inmates is down by more than 7,000 from a 2007 peak – largely through sentencing reform and a successful prisoner re-entry initiative – and staffing is down by about 1,000 in the same time period.

Still, the Corrections Department, with an annual budget nearing \$2 billion, consumes one-quarter of the annual General Fund budget. As the Center for Michigan reported last year, the state continues to devote more of its budget to corrections than other Great Lakes region states and most of the rest of the nation, no matter which metrics are used, according to recent studies by the National Association of State Budget Officers, the Pew Charitable Trusts and other non-profit organizations.

Building on existing alternatives to incarceration and finding others is likely to be a key focus for any new director in Michigan. Here's a look at existing research and tools the new corrections chief may want to develop, based on what's working – and what's not — nationwide.

Prison a failed policy

After a three-decade prison-building binge, fueled by “tough on crime” and “war on drugs” ideology, researchers and corrections industry insiders are conceding that building more penal institutions is an ineffective approach to public safety.

“When rehabilitation was rejected back in the 1970s, the resources were redirected to building prisons,” said William D. Burrell, a New Jersey-based consultant who served 19 years as head of probation services for that state's court system.

“Now we are spending an extraordinary amount of money to lock people up for extended periods of time, and doing very little if anything with them while they are locked up to address the factors that caused them to commit crimes in the first place (so) we're getting horrible results,” Burrell said. “Now the fiscal crisis has accelerated willingness to take a look at how we do things.”

Adam Gelb, director of the Public Safety Performance Project at the Pew Center on the States, agreed.

"There is an understanding now that prisons just can't get a blank check anymore," said Gelb. "Even if we could afford it, it's not the best way to get the taxpayer a better public safety return on their dollars."

Justice Reinvestment

Organizations like Pew, the Vera Institute of Justice and the Council of State Governments (CSG) are working with state corrections departments to evaluate these root causes and design solutions. Known as 'justice reinvestment,' the strategy "is a process," said Marshal Clement, director of the Justice Reinvestment project at the CSG. "It's an approach that states – and some cities – are using to identify the causes of the growth they are seeing. By pinpointing those drivers, you can put targeted programs in place to reduce them."

The four principles of justice reinvestment include focusing on likely re-offenders; using proven, scientific and measurable programs; more effective community supervision policies and what are known as "place-based strategies."

For example, Clement said, "justice mapping" takes a look at where prison inmates come from and where they head when they're released. When officials note big concentrations of offenders in certain neighborhoods or zip codes, they can consider moving probation offices closer to these high-risk areas. Such community-based supervision helps probation officers keep closer ties to offenders and their social circles, and it helps probationers who otherwise might face transportation hurdles keep from racking up violations based on missed appointments or skipped drug tests.

"We know that out of a three-year period, two-thirds of re-offenses are going to occur within the first year," said Clement. "In these satellite offices, the probation supervisor is better situated to be aware of the conditions and influences in the neighborhood, and to help offenders find resources."

Meanwhile, with more than 4.3 million people in the United States on probation after being convicted of a crime, according to U.S. Justice Department's 2008 statistics, resources aimed at that population must be eked out pragmatically, too.

Part of justice reinvestment involves creating a profile for each offender using risk-assessment tools administered by probation officers and other professionals. Depending on factors like an offender's age at first arrest, education, drug history, education and employment history and post-prison living situation, probationers can be sorted into various risk categories and addressed accordingly.

"With many low-risk probationers, we could probably do nothing and they would be fine," said Alison Shames, associate director for the Center on Sentencing and

Corrections at the non-profit Vera Institute of Justice in New York. "The tools help judges, probation officers and prisons figure out how to manage their caseloads."

For instance, she said, an offender with poor employment prospects and a substance abuse problem might – as a result of the risk assessment tool – be diverted into a job skills program and a drug treatment course.

"We can't do everything for everyone, but we can try to chip away at the factors that are shown to be predictive of criminal behavior," said Shames.

Texas turns to treatment

Drug treatment is a large component of many justice reinvestment solutions. That's because drugs are a factor for about 80 percent of convicted criminals, said Burrell, the New Jersey consultant. "We've been taking the drug problem – which is really a public health problem – and throwing legal solutions at it. And it isn't working."

That reality hit home in Texas a few years ago, when legislators took a look at their prison budget forecasts and decided there had to be a better way. State Rep. Jerry Madden (R-Plano) is among those credited with spearheading policy changes that nixed prison building in favor of more treatment for substance abusers, prisoner transition centers and more counseling for offenders.

"My driving impetus?" Madden said. "Going into the 2007 legislative session, we were looking at building 17,000 new prison beds, based on the growth we were seeing and the policies we had in place. I knew we had to look for other ways that were smart, safe, kept our reputation as being tough on crime and yet could control and reduce the prison population."

Instead of spending \$2 billion on new prisons, Texas worked with the CSG on a justice reinvestment analysis and ultimately spent \$241 million on diversion programs and treatment centers that gave judges a wider array of sentencing options and addressed risk factors. Some 6,000 new slots in community and residential programs were created.

The state also revisited parole and probation policies, cutting, for example, probation terms for some property and drug offenses from 10 to five years – which still covers offenders during their highest-risk periods but reduces caseloads for supervisors and courts.

Today, Madden said, there are about 10,000 fewer offenders incarcerated than there were in 2007 – and parole revocations (when offenders are sent back for violations like failing drug tests) have been reduced by 2,000 to 3,000 per year.

"We're doing something effective in the short-term instead of just sending them back to prison," Madden said.

Swift and certain

That's also where programs like Hawaii's HOPE and others like it come in.

Alm, a veteran prosecutor, felt there had to be a cheaper and more effective way to deal with flunked drug tests, missed appointments and other infractions. He wanted to whisk rule breakers straight to local jail for a few days of instant punishment that would reinforce the terms of probation, and he found that under existing law this was doable by using probation modification guidelines – no new legislation required.

Within a few months of ascending the bench, Alm had obtained buy-in from a top probation supervisor, convinced the local U.S. Marshals to apprehend MIA probationers, won the support of the Honolulu police chief and identified a high-risk pool of offenders for a test run.

On October 1, 2004, 34 hard-core violators came to the judge's courtroom for a "warning hearing" informing them that from now on, they'd be getting jail time for each and every violation. No-shows would be tracked down by marshals and admitted straight to the lock-up; those who turned themselves in would fare better but still serve a few days time. Random drug tests six times a month – to which offenders were summoned by a daily check-in call they must place early each morning – wouldn't give users time to detox between highs and evade the intent of the tests. Even failure to make that daily telephone call would result in an immediate warrant signed by the judge.

"It's all about swift and certain punishment," said Alm.

Six years later, the program supervises 1,700 felons – about 20 percent of those in the jurisdiction – and in a controlled study has posted results that some in the field are calling "extraordinary." The program has held a couple of picnics to fete successful grads, and Alm says he spends one week out of every month traveling – to venues as far away as Stockholm, Sweden – to discuss the strategy with other jurisdictions desperate to cut corrections costs.

While started with no budget, the program did eventually get an appropriation through the state legislature, about \$1.2 million at its peak and since reduced by budget cuts. Of that, \$770,000 was spent on drug treatment for HOPE participants. "And we hired two \$25,000-a-year clerks to do the urine testing, to free up the time of the probation officers," said Alm.

Gael Wood, a circuit court judge in rural Franklin County, Mo., heard about HOPE at a conference on outcome-based sentencing and was impressed by the statistics.

"I thought, if the numbers are even half that good, it would be worthwhile," Wood recalls. "We put a team together and developed a plan."

This month, Wood gave the warning lecture to the first group of 13 probationers in what's called MAPS, or Missouri Augmented Probation Supervision, which he's piloting

in his courtroom. To start off fair and square, probationers weren't to be drug-tested the first few days, but once the check-in process starts, Wood is prepared with sanctions for violators.

"If you don't show up, we are coming to where you are," he said. "Depending on the violations, I'm thinking we'll start out with 48 hours (in jail) and we'll probably crank it up a little more each time. But I think it's going to work, and we are really excited."

And the cost to taxpayers?

"We didn't have to have the laws changed and we didn't need any money to start this. Just a different commitment of time on behalf of the judge and staff," said Wood. "And that is a small price to pay."

Sentencing reform

Adapting sentencing and release policies is – along with the recidivism-reduction strategies developed through justice reinvestment – another tool states are using to rationalize prison costs, Gelb said.

"Most are going in the direction of giving courts more options – for drug offenders in particular," Gelb said. About 20 to 25 percent of offenders are convicted for violating drug possession, use or trafficking laws, he noted, but as others have said, up to 80 percent of inmates' crimes can be traced to some drug connection.

In South Carolina, state prison costs had swelled 500 percent between 1983 and 2009, with the inmate population growing from 9,137 to more than 25,000. But an analysis found that the growth was being driven by prison sentences for low-level felonies, and that a large percentage of admissions were for sentences of less than 18 months. Meanwhile, according to a sentencing reform commission report, a whopping 49 percent of the state's prison population was behind bars for non-violent offenses.

And the report continued, "The percentage of offenders incarcerated for drug-related offenses has more than tripled. In 1980, there were 473 inmates convicted of drug related offenses – six percent of the total population. In 2009, that number had increased to 4,682 inmates or 20 percent of the population."

Meanwhile, the state's parole board was rejecting more than 80 percent of applications, and paroled prisoners represented only 3.5 percent of those released.

At the recommendation of the sentencing commission, the South Carolina Legislature in March approved sweeping reforms, removing mandatory minimum sentences for first-time drug offenders, removing sentencing disparities between crack and cocaine possession convictions, allowing for more home confinement and changing parole eligibility for repeat drug offenders.

It also got tougher on crimes like sex offenses against children, reclassifying certain crimes from non-violent to violent and strengthening penalties.

The bill was signed into law in June, so results aren't yet available, but it's projected to save the state more than \$400 million over the next five years.

"Sentencing reform is the most politically difficult thing to do," said Shames of the Vera Institute. "But the idea isn't to let people off, just change the punishment and identify those who are good candidates for alternatives.

"You'll see a lot of it in this next legislative session," she said. "Lawmakers are starting to look at who's going through those doors."

Other remedies

While sentencing reform and reducing recidivism are the major thrusts of correction reform, other innovations aimed at getting a better bang for taxpayer bucks are afoot nationwide.

From using high-efficiency light bulbs in prisons to more video hearings, operations costs are getting a second look. But most analysts say those efforts only nibble at costs. Health care costs – especially for a population prone to higher rates of AIDS and other chronic diseases, and an increasingly geriatric prison cohort – are being addressed with medical paroles and experiments at privatizing health care providers, but results are spotty. Boutique or niche courts that specialize in drunk driving, drug or other classes of offenders – even special courts for military members – are popping up nationwide as judges attempt to innovate.

In Illinois, a once defunct prison was re-opened as Sheridan Correctional Center, specializing in intensive pre-release drug treatment and re-entry programs. Inmates meeting eligibility criteria go to Sheridan voluntarily, and while it costs twice as much to house an inmate there as in Illinois' general prison population, Sheridan parolees are 30 percent less likely to recidivate and 56 percent are successfully employed on parole.

As in Texas, Kansas, New York and even in Michigan's prisoner re-entry program, treatment along with punishment is increasingly the purview of corrections officials.

"Offenders, like us, have goals and aspirations and desires for their lives, too," said Burrell. "We must try to tap into that, to identify how their current behavior prevents them from achieving and how they can be motivated to change."

Measuring the outcome of cost-cutting measures in Corrections is troublesome because there are no industry-standard metrics that define prison operating efficiency. State-by-state comparisons, even of per-prisoner, per-day costs, are apples-to-oranges, analysts say, because of the variations in how states budget and account for corrections expenses.

Efficiency Measures

No one state systems stands out, observers say, for overall efficiency. Rather, researchers point to incremental efforts here and there to streamline or reduce prison costs.

A 2009 report by the Vera Institute of Justice noted a variety of tactics:

- Georgia reduced the number of meals served to inmates to save on labor costs while still providing the same calories to prisoners.
- Maine, which had considered sending inmates out of state to save costs, was swayed against the idea by advocates who contend that prisoners deprived of ties to nearby family and friends would have worse outcomes after incarceration. Instead, Maine identified \$168,000 in wasted prescription medications (which were discarded if prisoners failed to line up to receive them), lowered the wattage of some outdoor lighting, switched from oil to all-wood heating boilers and otherwise attacked facility costs.

Still, the Vera Institute report noted, the biggest efficiencies were achieved by states able to close prisons and reduce staff.

"It bears noting, however, that not all states are in a position to take such actions," the report stated. "Only those that have engaged in policy reforms that lowered their prison populations can take this step."

Adam Gelb, director of the Public Safety Performance Project at the Pew Center on the States, added that internal prison cost-cutting tends to erode counseling, substance abuse treatment and other efforts that are known to prevent recidivism.

"There is some small-fry cost-cutting inside prisons – using low-energy light bulbs, that sort of thing. But there is probably no easier cut (politically) you can make in state government than a program that serves a criminal. And if it's a program that is working, that is really penny wise and pound foolish."

Ironically, Gelb said, sometime program cuts have left inmates lacking the very treatment that parole boards require before releasing them. So in cutting services to prisoners, the state ends up housing them longer than necessary in prison, as well as increasing the likelihood of recidivism.

"It's a double whammy," Gelb said.

PAY & BENEFITS ISSUES

State Employee Health Benefits - Monthly premium costs (Family coverage)

Compiled by the NCSL Health Program - Updated: August 19, 2009

Year			2006			2009		
			Family coverage			Family coverage		
State cost			\$ 818.74	50 state avg		\$ 880.37	(47 state avg)	
Employee			\$ 193.93	as above		\$ 192.01	(47 state avg)	
Ave. Total			\$ 1,012.67	as above		\$ 1,075.60	(48 state avg)	
	FT #	period	State	Employee	Total	State	Employee	Total
AL		10/1-9/30	\$ 650.00	\$ 164.00	\$ 814.00	\$ 775.00	\$ 180.00	\$ 955.00
AK	1	7/1-6/30	\$ 763.00	\$ 270.00	\$ 1,033.00	\$ 895.95	\$ 0.00	\$ 895.95
AZ		10/1-9/30	\$ 818.52	\$ 125.00	\$ 943.52	\$ 1,158.00	\$ 150.00	\$ 1,308.00
AR	2	1/1-12/31	\$ 522.84	\$ 346.90	\$ 869.74	\$ 621.99	\$ 443.70	\$ 1,097.48
CA		1/1-12/31	\$ 807.00	\$ 141.82	\$ 948.82	\$ 994.00	\$ 233.00	\$ 1,227.00
CO		7/1-6/30	\$ 460.26	\$ 362.46	\$ 822.72	\$ 782.92	\$ 257.36	\$ 1,040.28
CT		7/1-6/30	\$ 995.38	\$ 176.07	\$ 1,171.45	\$ 942.57	\$ 97.57	\$ 1,040.13
DE		7/1-6/30	\$ 1,053.52	\$ 57.84	\$ 1,111.36	\$ 1,221.10	\$ 0.00	\$ 1,221.10
FL		7/1-6/30	\$ 715.92	\$ 180.00	\$ 895.92	\$ 835.98	\$ 64.30	\$ 900.28
GA	3	1/1-12/31	\$ 587.22	\$ 217.16	\$ 804.38	\$ 875.78	\$ 223.10	\$ 1,098.88
HI	4	7/1-6/30	\$ 487.38	\$ 322.34	\$ 809.72	\$ 523.72	\$ 284.20	\$ 807.92
ID		7/1-6/30	\$ 576.68	\$ 80.00	\$ 656.68	\$ 705.08	\$ 103.00	\$ 808.08
IL	5	7/1-6/30	\$ 1,096.52	\$ 245.50	\$ 1,342.02	\$ 715.71	\$ 127.99	\$ 843.70
IN		1/1-12/31	\$ 917.58	\$ 291.66	\$ 1,209.24	\$ 961.56	\$ 182.94	\$ 1,239.87
IA		1/1-12/31	\$ 989.75	\$ 222.08	\$ 1,211.83	\$ 932.47	\$ 0.00	\$ 932.47
KS	6	7/1-6/30	\$ 604.30	\$ 357.08	\$ 961.38	\$ 586.66	\$ 351.74	\$ 938.40
KY	7	1/1-12/31	\$ 703.37	\$ 320.14	\$ 1,023.51	\$ 785.44	\$ 376.72	\$ 1,162.16
LA		7/1-6/30	\$ 645.90	\$ 397.18	\$ 1,043.08	\$ 713.36	\$ 453.00	\$ 1,166.36
ME		7/1-6/30	\$ 1,117.44	\$ 337.34	\$ 1,454.78	\$ 1,238.26	\$ 373.84	\$ 1,612.10
MD		7/1-6/30	\$ 694.49	\$ 151.72	\$ 846.21	\$ 741.93	\$ 130.93	\$ 872.86
MA	8	7/1-6/30	\$ 1,160.14	\$ 204.73	\$ 1,364.87	\$ 781.92	\$ 195.48	\$ 977.40
MI*		10/1-9/30	\$ 1,187.27	\$ 62.49	\$ 1,249.76	1182.84*	131.42*	\$ 1,314.28
MN		1/1-12/31	\$ 976.84	\$ 107.32	\$ 1,084.16	\$ 1,185.14	\$ 130.20	\$ 1,315.34
MS	9	7/1-6/30	\$ 305.00	\$ 477.00	\$ 782.00	\$ 343.00	\$ 581.00	\$ 924.00
MO	10	1/1-12/31	\$ 977.00	\$ 258.00	\$ 1,235.00	\$ 1,219.00	\$ 277.00	\$ 1,496.00
MT		1/1-12/31	\$ 506.00	\$ 187.00	\$ 693.00	\$ 626.00	\$ 204.00	\$ 830.00
NE		7/1-6/30	\$ 1,141.64	\$ 303.46	\$ 1,445.10	\$ 1,470.28	\$ 390.84	\$ 1,861.12
NV	11	1/1-12/31	\$ 676.57	\$ 114.54	\$ 791.11	\$ 726.75	\$ 150.84	\$ 877.59
NH		1/1-12/31	\$ 1,886.21	\$ 0.00	\$ 1,886.21	\$ 1,710.47	\$ 30.00	\$ 1,740.47
NJ	12	1/1-12/31	\$ 835.77	\$ 0.00	\$ 835.77	Remain \$	1.5% of Sal	\$ 1,080.60
NM	13	7/1-6/30	\$ 550.87	\$ 236.09	\$ 786.96	\$ 806.42	\$ 201.62	\$ 1,008.04
NY	14	1/1-12/31	\$ 830.25	\$ 185.20	\$ 1,015.45	\$ 771.26	\$ 180.78	\$ 952.04
NC		7/1-6/30	\$ 321.14	\$ 521.32	\$ 842.46	\$ 346.38	\$ 413.46	\$ 759.84
ND	15	1/1-12/31	\$ 553.94	\$ 0.00	\$ 553.94	\$ 664.66	\$ 0.00	\$ 664.66
OH		7/1-6/30	\$ 853.23	\$ 128.50	\$ 981.73	\$ 762.04	\$ 134.88	\$ 896.92
OK		1/1-12/31	\$ 1,098.18	\$ 0.00	\$ 1,098.18	\$ 1,427.08	\$ 0.00	\$ 1,427.08
OR	16	1/1-12/31	\$ 1,002.97	\$ 0.00	\$ 1,002.97	\$ 1,036.36	\$ 0.00	\$ 1,036.36

PA		1/1-12/31	\$ 595.83	\$ 108.50	\$ 704.33	n/a	n/a	n/a
RI		7/1-6/30	\$ 1,098.01	\$ 43.92	\$ 1,141.93	n/a	n/a	n/a
SC		1/1-12/31	\$ 529.00	\$ 294.58	\$ 823.58	\$ 602.56	\$ 294.58	\$ 897.14
SD	17	7/1-6/30	\$ 415.36	\$ 297.68	\$ 713.04	\$ 481.08	\$ 155.00	\$ 636.08
TN		1/1-12/31	\$ 885.60	\$ 221.40	\$ 1,107.00	\$ 1,013.92	\$ 182.85	\$ 1,196.77
TX		9/1-8/31	\$ 671.08	\$ 327.60	\$ 998.68	\$ 637.84	\$ 311.31	\$ 949.15
UT		7/1-6/30	\$ 882.70	\$ 66.43	\$ 949.13	\$ 915.42	\$ 48.18	\$ 963.60
VT		1/1-12/31	\$ 1,200.55	\$ 300.15	\$ 1,500.70	\$ 1,123.82	\$ 280.96	\$ 1,404.78
VA	18	7/1-6/30	\$ 889.00	\$ 127.00	\$ 1,016.00	\$ 1,035.00	\$ 147.00	\$ 1,201.00
WA	19	1/1-12/31	\$ 953.00	\$ 49.00	\$ 1,002.00	\$ 561.00	\$ 79.00	\$ 640.00
WV	20	7/1-6/30	\$ 649.00	\$ 95.00	\$ 744.00	\$ 748.00	\$ 118.00	\$ 866.00
WI	21	1/1-12/31	\$ 1,200.45	\$ 55.00	\$ 1,255.45	\$ 1,189.60	\$ 78.00	\$ 1,267.60
WY	22	1/1-12/31	\$ 897.11	\$ 158.31	\$ 1,055.42	\$ 1,002.18	\$ 274.50	\$ 1,276.68

Data based on family coverage "standard benefit package", using lowest cost full-service HMO as example. Most states offer multiple plans and options, so certain employees often pay a different rate.

Supplemented with state research and NCSL telephone interviews with state agencies, 2001-2008.

* = MI's figures have been changed (8/20/09). The current figures are PPO figures. Previously HMO figures for the state's lowest cost plan was cited. Those figures (HMO) cited total cost as \$ 783.78; cost to state as \$744.60 and employee cost as \$ 39.18. The current PPO data was substituted for the HMO figures to allow for a even comparison between the 2006 figures which are PPO data as well.

v = \$ varies

- [1] AK: Includes dental & vision.
- [2] AR: Total cost includes contribution made by the ASE trust fund.
- [3] GA: figure is the average of 10 different managed care plans; lowest cost basic is \$117.33 in '03.
- [4] HI varies by union bargaining unit. State contribution varies from \$419 to \$465 in '03.
- [5] IL: The most recent figures are for FY 2008 (Jul '07-Jun '08). FY'08 data represents weighted average for all salary levels.
- [6] KS: For 2009, salary range: \$27,000-\$47,000; KS uses both a fiscal year and calendar year framework to administer its plan. The employee contribution is assessed on a calendar year basis; the state's contribution to the premium per employee changes on a fiscal year basis.
- [7] KY varies by county, up to \$397 for state share; rates for 2009 are for non-smoker plan.
- [8] MA has ten plan offerings, including 5 HMOs, which average \$62.55; 2009 rates are for employees hired after 6/30/03.
- [9] MS for 2009 rates are for employees hired after 12/31/05; MS had HD plan in 2009.
- [10] MO 2009 rates are for Central and East Region.
- [11] NV 2009 rate is for "Southern HMO".
- [12] NJ: Employee pays 1.5% of salary as premium and states pays remainder of premium.
- [13] NM - the 2009 rates are for salary range below \$50K.
- [14] NY: for 2009 rates example county; most emp. pay 1.5% of their pay for ins.
- [15] ND: 2009 figures based on w/o participation in wellness prog.
- [16] OR: For 2009, state pays 100% for full time emp; prorated for part-time.
- [17] SD: Rates for 2009 are for non-smokers with spouse age 40-44 and 2 + children.
- [18] VA: separate HD plan available in 2009.

SPECIAL REPORT: Health care pools offer savings in other states

By John Bebow | Published: September 2, 2009

Michigan House Speaker Andy Dillon proposes to create a statewide health insurance pool for a wide range of active and retired employees of state and local governments, K-12 school districts, community colleges and universities.

A special legislative committee will begin hearing testimony on the idea this week. Among the factors policy makers will consider is cost savings.

Could pooling save money for Michigan taxpayers?

To shed light on that question, The Center for Michigan benchmarked the costs of public health care benefits pools in seven key comparison states.

Overall, benchmarking suggests that states with pools may be finding cost-effective ways to provide health insurance to public employees, potentially leaving tax revenue on the table for other strategic public priorities.

Three main conclusions:

1. LOWER COSTS IN OTHER STATES: Seven key benchmark states that offer health care pooling for public employees experience lower costs than Michigan does for state workers. Taxpayers spend an average of \$6,435 per enrollee in those states' public health care pools. In comparison, Michigan taxpayers spent \$9,836 per enrollee for state employee and retiree health care in 2008. That is 53 % higher cost for state workers and retirees in Michigan than for the enrollees in other states' pools. Even after increased premium sharing for State of Michigan workers in 2009, taxpayer costs for each enrollee will likely be more than 40 % higher than what taxpayers cover in those pooling states.

2. PUBLIC EMPLOYEES PAY A GREATER SHARE ELSEWHERE: State of Michigan workers saw their premium co-pays double from 5 % to 10% in the past year. Their share remains lower than their peers in pooling states:

STATE EMPLOYEE SHARE OF PREMIUMS

California 16 %
Georgia 25 % (Governor recommends hiking to 30%)
Massachusetts 17%
North Carolina 20%
Washington 15%
Wisconsin 7%

3. BIG INSURANCE POOLS ARE POSSIBLE: There are concerns that Michigan's patchwork of thousands of schools and local governments is too unwieldy to pool into a large insurance plan. Yet, big pools are operating in some other states. A quarter-million enrollees in California's public worker plan do not come from state government. The North Carolina pool insures the families of 250,000 public schools, college, and municipal workers in addition to state employees – the non-state enrollees there outnumber the state enrollees.

COMMENTARY

First, we caution that full explanations for the lower taxpayer insurance costs in pooling states are unclear. We have not, for example, benchmarked the very complex layers of benefits available in each state's pooling plan and compared those benefits levels to what Michigan workers receive. Our main concern was to examine costs, not benefits levels. We viewed this benchmarking through the eyes of Michigan taxpayers who are, in effect, the employers of public workers. Through that lens, it is clear that taxpayers in pooling states are paying less than Michigan pays for its state workers' benefits. In that respect, Michigan is arguably not cost-competitive with the pooling states examined. And cost competitiveness is an intensely important issue in our state where interest groups from all corners are competing for a state budget pie that is ever-shrinking due to the state's lagging economy and outdated tax code.

Second, we acknowledge that the benchmarking contained in this report is not a complete apples-to-apples comparison because: 1) apples-to-apples data are not, to our knowledge, available; and, 2) every state's experience is different. For example, neither we nor, as we understand it, Speaker Dillon's research team has found clear and comprehensive data for the costs and premium co-pay levels in the current patchwork of health care plans available to hundreds of thousands of workers in Michigan local government, schools, community colleges and universities. Would adding those coverage and co-pay rates to the base of state employees increase or decrease the per-enrollee cost to Michigan taxpayers? We simply don't know.

In short, a main goal of this brief report is to spur further questions among policy makers who will now consider Dillon's proposed pooling legislation. Those questions include:

- How are pooling states able to provide health care benefits more affordably than the State of Michigan?
- What are the fairest levels of coverage for public workers in today's Michigan economy?
- Have the State of Michigan and other education and local government agencies in our state done all they can to cut costs through efficiencies and use their considerable buying power in negotiation with insurers and health care providers?

Finally, a word about why The Center for Michigan has attempted this benchmarking... Almost three years ago, a bipartisan commission of state budget experts urged the state to benchmark the costs and best practices of Michigan government, including health care. Since then, no state agency has, to our knowledge, taken up the call. This report is, in our view, consistent with what those budget experts wanted to see.

METHODOLOGY

This report was written by Center for Michigan executive director John Bebow and researched by Bebow and Scott Rasmussen, a master's degree holder from the University of Michigan's Ford School of Public Policy.

We have researched the pooling states of California, Delaware, Georgia, Massachusetts, North Carolina, Washington, and Wisconsin because those are the states whose insurance pool structures Speaker Dillon, the Michigan Legislative Services Bureau, and/or the Michigan Education Special Services Association (MESSA) have researched for comparison purposes.

For each state, we used annual reports, public budget documents, and confirming phone and email interviews to determine:

- Total annual taxpayer-funded costs for the health care benefits pool.
- Total number of enrollees, defined as the employee or retiree who obtains the insurance for his/her dependents. The number of enrollees is also known as the number of individual insurance contracts.
- The total number of people covered (enrollees plus dependents)
- The total taxpayer cost per enrollee
- The total employer (taxpayer) share of premiums paid
- The total cost of premiums
- The enrollee percentage share of premiums paid
- The percentage of the pools enrollees who came from state government vs. other public agencies.

**CONSOLIDATION
&
SERVICE
SHARING**

ISSUE GUIDE



ACTION GROUP • MAY 13, 2009
GOVERNMENT COLLABORATION & ACCOUNTABILITY



www.thecenterformichigan.net

INTRODUCTION

Michigan's public purse is torn wide open. State officials are struggling to close a more than \$1 billion budget deficit this year. The state is on pace to spend \$10 billion more than it collects in taxes a few short years from now. Local property tax revenues are dropping quickly due to foreclosures and falling home values. In short, Michigan's public sector must change the way it does the public's business. The choice is simple – raise taxes, cut costs, or do both.

Michigan raised taxes two years ago to solve the last state budget crisis. Soon thereafter, Governor Jennifer Granholm said she would never again pursue a tax hike. There is almost constant buzz in Lansing about tax cuts and tax increases. But taxes are not the focus of this morning's discussion. This town hall meeting will address one big question...

In the toughest economic conditions since the Great Depression, how does Michigan's public sector – at most reasonably efficient cost – support the kinds of vibrant, high-quality communities where people want to live and work and companies want to do business?

We will discuss 10 possible public sector reform choices across three broad topics: **Collaboration**, **Efficiency**, and **Personnel**. These are, by no means, the only possible "reforms" out there. But they are among the most top-of-mind ideas under discussion in Lansing and at local city council and school board tables. By the widest estimations, the reform proposals we'll discuss today could amount to **more than \$5.5 billion in savings** to state and local government and schools. But such savings come with many trade-offs, like lower wages and benefits for public workers and loss of local control for municipalities and school districts.

This Issue Guide offers one-page summaries – including possible savings and pro/con arguments for each of the 10 reform choices we'll consider this morning. Also at your table you have color-coded slides prepared by experts who will lead us in this morning's discussion:

- Mike Flanagan, Michigan Superintendent of Public Instruction (video presentation only)
- Eric Scorsone, Co-Director, State and Local Government Program, Michigan State University Extension Service
- Paul Tait, Executive Director, Southeast Michigan Council of Governments
- Kurt Kimball, City Manager Emeritus, Grand Rapids
- Kevin Prokop, Co-Chair, Michigan Legislative Commission on Government Efficiency
- Doug Roberts, Director, Institute for Public Policy & Social Research, Michigan State University.
- Cynthia Williams, Executive Director, Michigan Education Special Services Association (MESSA)

This issues guide was written by Center for Michigan Executive Director John Bebow and reviewed before publication by today's panel members.

We'll cover a lot of territory quickly this morning. John Bebow and Public Sector Consultants Senior Vice President Peter Pratt will review the reform choices in a question & answer exchange with the expert panel. Participants will vote on the reform choices using the digital clickers at your tables. There will be open discussion between participants and the experts. Finally, volunteer work groups will be formed to continue work here in Lansing on the reform topics that gain the most momentum throughout this interactive morning. **A detailed agenda is on the next page.**

PROGRAM AGENDA

- 8:00 a.m. – Grab a cup of coffee and pick a seat
- 8:15 – Opening remarks, introduction of panelists – Phil Power, President, Center for Michigan
- 8:30 – Expert Discussion on **Collaboration Reform Choices**
- Intensified School Consolidation & Service Sharing
 - Intensified Local Government Consolidation & Service Sharing
 - Reform of Act 312 (binding arbitration)
 - Reform of Urban Cooperation Act (wage & benefit barriers to collaboration)
- 9:00 – Town Hall Q & A Between Participants and Experts on Collaboration Reforms
- 9:30 – Digital Voting (with instant results) on Collaboration Reforms
- 9:40 – Expert Discussion on **Efficiency Reform Choices**
- Benchmarking Best Practices
 - New State Revenue Sharing Formula Reform
- 10:10 – Town Hall Q & A on Efficiency Reforms
- 10:40 – Digital Voting (with instant results) on Efficiency Reforms
- 10:50 – Expert Discussion on **Personnel Reform Choices**
- Wage Cuts & Layoffs
 - Retirement Benefits
 - Health Care Co-Pays
 - Pooling of Public Sector Insurance Plans
- 11:20 – Town Hall Q & A on Personnel Reforms
- 11:50 – Digital Voting (with instant results) on Personnel Reforms
- Noon – Reform Action Group Activity Signups. Lunch. Have a nice day.

COLOR-CODED SLIDE GUIDE

- GOLD:** Mike Flanagan on school accountability and service sharing
- PINK:** Paul Tait on consolidation, collaboration, and possible efficiencies
- GREEN:** Eric Scorsone on consolidation, collaboration, and benchmarking
- BLUE:** Kurt Kimball on collaboration success, Act 312, and Urban Cooperation Act
- YELLOW:** Kevin Prokop on revenue sharing and benefits pooling
- ORANGE:** Doug Roberts on retirement benefits
- LAVENDER:** Cynthia Williams on benefits pooling

COLLABORATION REFORM CHOICES

CHOICE 1: INTENSIFIED SCHOOL CONSOLIDATION & SERVICE SHARING

CONCEPT: Michigan has more than 500 local public school districts. Combining various district operations – from busing to back-office administration functions like purchasing and payroll – may result in economies of scale, especially in rural areas, while allowing districts to maintain their local identities. A legislative efficiency commission has floated the idea of giving the state school superintendent the power to consolidate neighboring districts if budget savings of 5 percent can be realized. Another approach would be to mandate shared services at the county-wide Intermediate School District level.

POSSIBLE SAVINGS: Recent rigorous statewide estimates of the savings implications of school district mergers and shared services were unavailable for this guide. A couple points of reference... If two neighboring districts each received \$8,000 per pupil in state funding, and a 5 percent savings could be achieved through service sharing or consolidation, the districts would save \$400 per student per year. A Deloitte study last year suggested schools could save \$9 billion nationwide through service sharing.¹ Michigan's very rough share of that \$9 billion estimate would be \$300 million, based on population. \$300 million is about 2.5 percent of total state spending on local schools.²

PROS: Money-saving consolidations and service sharing could lead to less investment in school bureaucracy and more on classroom education. Putting the responsibility – and heat – for school consolidations on the state education boss would insulate local officials from often-heated local arguments over school closures and program changes.

CONS: Loss of local control over local schools. Service sharing programs elsewhere have produced mixed results, according to the American Association of School Administrators.³

COLLABORATION REFORM CHOICES

CHOICE 2: INTENSIFIED LOCAL GOVERNMENT CONSOLIDATION & SERVICE SHARING

CONCEPT: Michigan has more than 1,800 units of local government. Conventional wisdom suggests that consolidating some of those governments could result in money-saving staffing efficiencies and economies of scale in such things as purchasing. In practice, there has been only one such consolidation in Michigan in recent years – three small towns that formed the new city of Iron River in the 1990s⁴. Larger consolidation pitches – such as an idea to combine Farmington and Farmington Hills – have not won local political support. However, local governments across the state have found hundreds of money-saving ways of working together. In west Michigan, Grand Rapids and surrounding cities have joined forces on 109 different services, including such things as community service work crews, police cadet training, emergency dispatch, waste disposal, transit, recreation, and public works equipment sharing⁵. In metro Detroit, the Southeast Michigan Council of Governments lists 250 such collaboration examples⁶. Yet four years ago, a detailed statewide survey of hundreds of governmental units by the Citizens Research Council of Michigan found the vast majority of governments were not cooperating on such things as accounting, payroll, purchasing, printing, building security, janitorial services, cemetery maintenance, fleet services, permitting and code enforcement, community planning and development, and parking lot/structure management.⁷ Governor Jennifer Granholm and other political leaders have discussed requiring greater consolidation and collaboration but have not provided funding mechanisms that would either incentivize or force action.

POSSIBLE SAVINGS: In Iron River, the consolidation led to local government savings of 10 percent.⁸ A proposed consolidation of Farmington-Farmington Hills was projected to save about \$3.7 million per year – a savings of \$250-400 for each Farmington household and \$40 for each Farmington Hills household.⁹ Greater consolidation of fire and emergency response services could save an estimated 15 percent (or \$100 million) per year statewide.¹⁰

PROS: Intensified consolidation and service sharing could save significant money, funnel more resources directly into top-priority services, and encourage greater regional planning, cooperation, and economic development.

CONS: Possible loss of local control and possible erosion of traditional town identities. A funding model to incentivize or force consolidations and service sharing would be complex and the push for long-term savings could result in initial, short-term upheaval.

COLLABORATION REFORM CHOICES

CHOICE 3: REFORM OF ACT 312

CONCEPT: This four-decade-old law prevents police and firefighters from going on strike by requiring labor disputes to go to binding, third-party arbitration far removed from local city council tables. Public safety costs amount to as much as half of an average city budget. Economic studies suggest that binding arbitration drives up local government costs by 3-5 percent.¹¹ City administrators also argue Act 312: 1) Stymies money-saving consolidation of neighboring police and fire departments; 2) Can result in budget-breaking back pay awards; 3) Can drive up pension benefits to the point where, in some cases, retirement incomes are greater than wages when officers are still on the job.¹²

POTENTIAL SAVINGS: Based on economists' published estimates, removing binding arbitration could, over time, result in a 3-5 percent reduction in local government expenditures. Local governments in Michigan spent \$2 billion on public safety in 2006¹³, the last year for which full data is available. A four percent reduction would amount to annual savings of \$80 million statewide.

PROS: Savings on labor costs and returning control of those costs to local elected officials rather than distant arbitrators. Simplified labor negotiations, since many workplace issues beyond pay and benefits are now argued for many months in arbitration cases.

CONS: A renewed threat of police and firefighter strikes or "sickouts" if Act 312 is fully repealed. Likelihood of intense morale problems among public safety workers. Complications from a statewide "solution" to a problem affecting a small minority of municipalities, according to labor leaders.

COLLABORATION REFORM CHOICES

CHOICE 4: REFORM OF URBAN COOPERATION ACT OF 1967

THE CONCEPT: If two or more cities want to formally consolidate or merge departments, the highest wages and benefits offered by any of the cities involved in the merger would become the rule for the employees of all the merged operations. That's a key concept of the Urban Cooperation Act. Local government leaders say it is a huge impediment to further government consolidation, service sharing, and cost savings. "We can talk about consolidation in Lansing until we're blue in the face," the Michigan Municipal League recently stated. "Local units of government are even open to the idea. But without changes to the Urban Cooperation Act and Public Act 312, it's nothing but talk."¹⁴

POSSIBLE SAVINGS: We have not found a calculation for detailed cost savings from reform of the Urban Cooperation Act. But experts say this reform is a precursor to many of the consolidation and service sharing cost savings estimates listed earlier in this document.

PROS: Removing the highest wages and benefits provision in the law would help open the door to cost-saving consolidations, service-sharing agreements, and potentially greater regional cooperation and planning.

CONS: Potential loss of local control and potential reductions in pay and benefits for some workers.

EFFICIENCY REFORM CHOICES

CHOICE 5: BENCHMARKING BEST PRACTICES

CONCEPT: The Internet and modern database techniques make it possible to gather reams of data on a wide range of public sector services. Local governments can use such benchmarking data to compare themselves against peer governments, and identify and implement "best in class" practices. Cost efficiencies in many areas – like road maintenance costs per mile, crimes solved per police officer, or costs of vehicle maintenance, prisoner meals, utilities, and health care plans – can be identified and leveraged.

POSSIBLE SAVINGS: A consortium of local governments in North Carolina has seen substantial savings through a benchmarking program launched in 1995. Local anecdotes include municipalities that reduced refuse hauling expenses by 30 percent, recycling expenses by 60 percent, and fire service costs per response by 44 percent.¹⁵ Potential savings for Michigan's public sector could be in the range of 2.5 percent of spending on a periodic basis.¹⁶ Local government savings of 2.5 percent across Michigan would amount to about \$100 million per year.¹⁷

PROS: Savings through benchmarking efficiencies could help maximize service levels in an era of very limited revenues. In addition to savings, benchmarking provides greater accountability across governmental units and creates an annual scorecard on which the public sector can measure annual performance. For example, the state of Oregon annually holds itself accountable for roughly 100 benchmark performance measures¹⁸. Michigan has no such system despite repeated pleas by budget and public policy experts to create one.

CONS: Full, state-mandated local government benchmarking would add unknown costs to each local government. A pilot program at Michigan State University involving 40 units of government costs \$60,000 per year. Administering the program for all 1,800 units of local government across Michigan would cost an estimated \$500,000-\$700,000 per year.¹⁹

EFFICIENCY REFORM CHOICES

CHOICE 6: NEW STATE REVENUE SHARING FORMULA

CONCEPT: Michigan's more than 1,800 units of local government will receive \$1.1 billion in revenue sharing payments from the state this year²⁰. About 60 percent of that money comes from a constitutionally guaranteed portion of state sales tax revenues and the rest is provided under other state budget-related law²¹. Each city, county, village, and township gets revenue sharing based on population. A legislative efficiency commission has suggested "a constitutional amendment that establishes a level of payment to local governments and counties that follows services and not the unit of government."²²

POSSIBLE SAVINGS: The legislative efficiency commission estimates that a new revenue sharing formula that leads to greater local government efficiency could save \$250 million or more per year.²³ A new revenue-sharing formula could, conceivably, allow the governor and legislature to impose specific cost savings measures on local governments. For example, the Southeast Michigan Council of Governments lists the following potential Deficit Reduction Opportunities²⁴:

- Apply a four-day, 32-hour work week to save up to 20 percent of labor costs.
- Reduce or eliminate least important services to save 10 percent.
- Rebid all purchases to save 10 percent.
- Privatize non-critical services to save 15 percent.
- Consolidate departments and organization structure to save 15 percent.
- Reduce non-competitive overhead and administration costs by 30 percent.
- Re-open union contracts to reduce benefits costs by 30 percent.
- Sell revenue-producing assets for a one-time cash infusion.
- Restructure debt.
- Collaborate with neighbors to save 30 percent.

Many local governments have voluntarily pursued such cost-saving strategies. Greater control over revenue sharing could allow the governor and legislature to impose mandatory efficiency strategies.

PROS: Leverage for a "carrot-and-stick" funding approach – financial rewards for best practices and penalties for inefficiencies. Financial rewards for intergovernmental cooperation and penalties for isolationists.

CONS: Loss of local control over government programs. Year-to-year budget uncertainty for local governments. Many challenges in de-politicizing and ensuring fairness in a revenue-sharing system not based on population. Local governments have already endured years of revenue sharing cuts because of legislative acts and lagging state sales tax revenues.

PERSONNEL REFORM CHOICES

CHOICE 7: WAGE CUTS & LAYOFFS

CONCEPT: The annual cost of public sector employees in Michigan is an estimated \$33.3 billion (in a \$381 billion²⁵ state economy.) That's about \$81,000-\$83,000 per worker year. Following the often-used corporate cost-cutting strategy of eliminating jobs, Michigan's public sector could obtain considerable savings. Michigan's state government includes 53,700²⁶ employees who earn, on average, \$54,250²⁷ in wages and \$29,300²⁸ in benefits each year. Altogether, Michigan's total public sector, including local schools, colleges, universities and local governmental units, had an estimated 411,659²⁹ full-time employees in 2007 who earned, on average \$51,800³⁰ in wages, \$18,616³¹ in pension benefits, and \$10,400³² in employer-paid health care annually. Across-the-board staff cuts among Michigan's thousands of individual public sector entities would be impossible to impose, though the governor and legislature could, conceivably, force such reductions with drastic cuts in revenue sharing with local schools and governments.

POSSIBLE SAVINGS: As an example, a 10 percent reduction in state workforce or compensation could save \$450³³ million per year. A 10 percent reduction in Michigan's total public sector workforce or compensation could save \$3.3 billion per year. Applying a four-day, 32-hour work week across Michigan's public sector could save up to 20 percent (\$6.6 billion) per year.³⁴

PROS: A shrinking private sector tax base cannot support a static public sector workforce. Job cuts would force government to simplify operations and focus on mission-critical public services in an era of dire economic circumstance.

CONS: Michigan's public sector has already made considerable sacrifices. The state government workforce is down 9,500 workers (or 15 percent) from 2001³⁵. Many local governments and schools have also made cuts. Cost cutting has contributed to a shrinking school year in Michigan – more than 40 percent of school districts now hold fewer than 170 days of instruction (two full weeks below the national standard of 180 days³⁶). Michigan is already 10 percent below the national average in overall local government and schools staffing levels. The difference is especially acute in key public safety staffing areas: Michigan police staffing (19 percent below national average), fire fighters (37 percent below national average), and water and sewer workers (7 percent below national average).³⁷ Shortened work weeks and lower staffing levels would naturally lead to lower service levels. And, more job cuts in the public sector will likely lead to less discretionary spending in the general Michigan economy.

PERSONNEL REFORM CHOICES

CHOICE 8: TIGHTEN PENSION ELIGIBILITY & MOVE TO 401K-STYLE RETIREMENT PLANS

CONCEPT: There are more than 130 public employee pension systems in Michigan representing more than 220,000 retirees and more than 500,000 active employees.³⁸ Altogether, state and local governments, including schools, in Michigan contributed \$5.3 billion to pension systems in 2006, the last year for which full data is available.³⁹ Most notably, the Michigan Public School Employees' Retirement System (MPERS) represents more than 162,000 retirees and beneficiaries. In 2008, Michigan schools contributed \$1.5 billion to fund MPERS. Over the past five years, increased contributions to MPERS accounted for 42 percent of all increases in state funding for schools.⁴⁰ Tightening pension eligibility and/or moving to 401k plans could reduce annual pension expenditures, allowing some funds to be redirected to other local government services and classroom expenses.

POSSIBLE SAVINGS: Tightened eligibility and benefits changes could result in eventual annual savings of \$87 million⁴¹ in the educators' retirement system. If tightened eligibility standards and benefits changes could produce 5 percent savings statewide, it would equate to \$265 million in annual savings.

PROS: Tightened retirement spending in the public sector would reflect recent trends in the private sector and allow some public funds currently spent on legacy systems to be reinvested directly in acute public services and classroom needs.

CONS: Labor unions contend that switches from pensions to 401k-style retirement plans do not save money and do not provide adequate and secure retirement incomes for public employees.⁴² Pension negotiations are highly controversial, subject to collective bargaining, and certain to lead to morale problems among affected public employees. Initial costs of moving from pensions to 401k plans for teachers would amount to more than \$100 million in the first year and it would take many years of annual savings to recoup the up-front investment.

PERSONNEL REFORM CHOICES

CHOICE 9: INCREASE HEALTH CARE CO-PAYS

CONCEPT: Widespread cuts to private and public sector benefits are a well-documented trend in recent years. Significant additional public savings could result from cutting public sector health care costs and increasing co-pays for public workers. In 2007, almost 213,000 State of Michigan employees and retirees received health care benefits at a combined cost of \$1.45 billion. These benefits costs exceed the national average for other public sector systems and the employee share of premiums is lower on average than in other public and private sector systems.⁴³

POSSIBLE SAVINGS: Increasing state employee and retiree health care premium co-pays to match the *nationwide* average for family coverage could save \$269 million per year. Altogether, state and local governments, including schools, spent \$7.1 billion⁴⁴ on health insurance benefits in 2005-06, the last year for which full data is available. An across-the-board shift of 10 percent of those expenses from employer to employees would save an estimated \$700 million.

PROS: Shifting health care costs from employers to employees can be a relatively quick public sector cost cutting mechanism. Such shifts would bring public sector benefits in line with those available in the private sector which pays for the public sector.

CONS: Shifting costs from employers to employees may actually increase long-term health care costs if employees forego needed care and require most expensive care later on. Cost shifting also fails to address the causes of rising health care costs. Benefits changes are complex and highly emotional issues subject to collective bargaining. Further cuts to benefits would negatively impact morale in public workplaces, where workers have been subject to many types of spending and staffing cuts in recent years. Statewide mandates of across-the-board benefits cuts to local government workers would be impossible due to Michigan's tradition of home rule.

PERSONNEL REFORM CHOICES

CHOICE 10: MANDATED HEALTH CARE BENEFITS POOLING

CONCEPT: A statewide insurance pooling system for public employees may save money by consolidating administration, pooling the risk of individual catastrophic claims, and providing power in numbers to negotiate lower rates with insurers. Michigan Public Act 106, passed two years ago, allowed for a smoother creation of such voluntary pools.⁴⁵ But, so far, not a single new insurance pool has been created among local governments and schools since the act became law,⁴⁶ suggesting that a voluntary pooling law is ineffective or not yet compelling to local governments. State law does not mandate pooling. A legislative reform commission has discussed the creation of a combined statewide system for public employees.⁴⁷

POSSIBLE SAVINGS: Legislative analysts who studied the possible impacts of Public Act 106 of 2007 did not estimate the potential savings. Savings from pooling could be **\$156-223 million** per year *for school districts only*, according to a 2005 paper by the American Federation of Teachers and International Union of Operating Engineers.⁴⁸ That estimate did not include additional savings for local government. The unions' study estimated pooling could cut 7 percent of school district health care costs. If such pooling savings could be extended across Michigan's full public sector, a 7 percent savings would amount to more than **\$500 million** per year.⁴⁹

PROS: Lowering and containing health care costs may allow schools to put more money into classroom education and local governments to spend more on direct public services. The Michigan Education Special Services Association (MESSA) offers the benefits of pooling for more than half of all public school and community college employees in Michigan. MESSA points to more than \$500 million in cost savings in the past five years through new benefit plan options.

CONS: Pools could limit health care choices for workers. Results of small regional pools are mixed. One pool of west Michigan schools raised rates by 21.7 percent in 2007-08, while MESSA has kept annual rate increases to an average of less five percent over the last four years.⁵⁰ Creation of a statewide pool would be a massive, time-consuming undertaking—involving numerous union contracts—that could possibly result, at least in the near term, in considerable confusion and morale problems among public workers.

SOURCE NOTES

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- ⁴ "The Fiscal Status and Outlook for Local Governments in Michigan and Branch County." 2009. Dr. Eric Scorsone, co-director, State and Local Government Program, Michigan State University Extension Service.
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